



## **WORKER MISCLASSIFICATION FACT SHEET**

**Misclassification not only hurts workers and their families but it hurts local businesses who are doing the right thing.**

**Payroll fraud** occurs when an employer illegally misclassifies an employee as an independent contractor to avoid paying unemployment, payroll, and Social Security taxes.

- **More than 37%** of Texas construction workers are misclassified as independent contractors.<sup>1</sup>
- **Payroll fraud allows unscrupulous contractors to underbid on contracts by an average of 20%**. Employers who commit payroll fraud are able to undercut their competition when bidding on projects because they do not pay for their employees' payroll taxes, workers' compensation premiums, training or employment benefits.<sup>2</sup>
- **Payroll fraud costs Texas \$54.5 million** in lost unemployment tax revenue.<sup>3</sup>

**Misclassified workers are denied important rights and benefits**, including the rights to minimum wages and overtime pay, workers' compensation, and unemployment insurance. Employers who commit payroll fraud also unfairly shift their payroll tax burden to their employees, shouldering workers with the burden of paying their employer's share of payroll taxes in addition to their own.

**Working families in Austin need local laws that require employers to properly classify their employees and hold back actors accountable.**

**For more information:** Contact **Fabiola Barreto**, [Fabiola@wdactionfund.org](mailto:Fabiola@wdactionfund.org)

---

<sup>1</sup> Berard, Y. Contract to cheat: Tax cheats are widespread in Texas construction industry. mcclatchydc Available at: <http://media.mcclatchydc.com/static/features/Contract-to-cheat/Tax-cheats-hit-hard-in-Texas-construction.html>. (Accessed: 9th April 2021)

<sup>2</sup> *Ibid.*

<sup>3</sup> University of Texas at Austin Division of Diversity and Community Engagement & Workers Defense Project. *Build a Better Texas*. (2013).